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TAGS: ECON EFIN VE
SUBJECT: CHAVEZ ANNOUNCES "ANTICRISIS" ECONOMIC MEASURES:
STOP-GAP POLICIES, NOT FUNDAMENTAL CHANGE

REF: A. CARACAS 304
¶B. CARACAS 354
¶C. 2008 CARACAS 1455
¶D. CARACAS 87

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b)
and (d).

¶1. (C) Summary: President Chavez announced on March 21 a series of "anticrisis" economic measures. These measures do not represent any fundamental change in the Government of the Bolivarian Republic of Venezuela's (GBRV) management of the Venezuelan economy. Instead, they are stop-gap policies designed to finance, at least partially, the budget deficit caused by the drop in oil prices and Venezuela's slowing economy. The measures include raising the value added tax (VAT) from nine to 12 percent, raising the limit for new debt issuance in 2009 from 12 to 34 billion bolivars (Bs; 5.6 to 15.8 billion dollars at the official exchange rate), and cutting the 2009 budget by 6.5 percent. Chavez said there would be neither a devaluation nor, at least for now, an increase in the price of gasoline. While these measures will help the GBRV close its deficit in 2009, they will do nothing to arrest Venezuela's downward economic spiral. End summary.

The Packaging (Though Not for a Package)

¶2. (U) In a much-anticipated cadena (mandatory television and radio broadcast), President Chavez announced on March 21 a series of "anticrisis actions." While claiming the international economic crisis "has not touched even a hair of Venezuela," he characterized the measures as necessary to "protect what we have accomplished in preceding years" and "safeguard us from the great threat" of the capitalist economic model. In public remarks leading up to the March 21 announcement, Chavez took great care to frame his government's approach in a time of economic crisis as different from the approaches of preceding governments. He claimed "social spending" would not be cut and referred to the measures as "adjustments" or "tactical shifts in economic formulas," insisting they were not a "package" (a word he associates with economic adjustments negotiated between previous governments and the IMF).

The Measures Themselves

¶3. (U) Chavez announced a variety of measures, including: raising the VAT from nine to 12 percent; raising the ceiling for new debt issuance in 2009 from Bs 12 to 34 billion (USD 5.6 to 15.8 billion at the official exchange rate of 2.15 Bs/USD); cutting spending budgeted for 2009 from Bs 167 to 156 billion (USD 77.6 to 72 billion, or a 6.5 percent cut); revising the 2009 budget assumptions to reflect an average oil price of USD 40 per barrel instead of USD 60 and average daily production of 3.1 million barrels per day instead of 3.6 million; reviewing the salaries of senior government officials; eliminating spending on items such as "executive" vehicles, furniture, remodeling, unnecessary publicity, corporate gifts, etc; and increasing the minimum wage 10 percent in May and another 10 percent in September. Chavez said there would be neither a devaluation nor, for the moment, an increase in the price of gasoline (refs A and B).

Comment: Buying A Bit of Time

¶4. (C) These measures will help the GBRV close its budget deficit in 2009 but will not arrest the country's downward economic spiral. Private estimates of the 2009 deficit vary widely, with most falling between Bs 43 and 65 billion (or roughly 7 to 9 percent of GDP) and one outlier of Bs 100 billion (Barclays Capital). (Note: These estimates, which were made before the March 21 announcement, vary so widely in part because they are based on different assumptions of oil price, oil exports, growth, and spending. Spending is particularly hard to estimate, as the budget provides only a notional indicator. GBRV practice is to spend substantially more than initially budgeted, with the National Assembly

approving "additional credits" to cover the difference (ref C). End note.)

¶5. (C) Given these estimates, the measures announced by Chavez will likely not be enough to cover the deficit. One local economist estimated the VAT increase will raise an additional Bs 9 billion for the GBRV in 2009. Summing together the increase in VAT revenue, the increase in debt issuance, and the reduction in spending gives Bs 42 billion, or less than most estimates of the deficit. In other words, the GBRV will likely have to apply additional measures later in 2009 to cover the remaining part of the deficit.

¶6. (C) While these measures buy at least some time, they do nothing to fix underlying economic problems. Reliance on banks to finance the GBRV's deficit by buying domestic debt, a practice we will examine more closely from the banks' perspective septel, symbolizes this paradox. The banks are likely to buy the debt because real demand for private credit is quickly falling and Central Bank actions are freeing up liquidity. If government spending were efficient and productive, this strategy might have some merit. But reliance on increasing and increasingly inefficient government spending was a primary reason Venezuela's recent economic boom was unsustainable (ref D). These measures do nothing to address the multiple disincentives to private investment in Venezuela nor the incredible distortions caused by an overvalued exchange rate and price controls (e.g., the gasoline subsidy). End comment.
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